

# Costs of The Employer's Liability Insurance System

Ing. Vojtěch CHLUBNA

prof. Ing. Lubor Chundela, DrSc.

## Abstract

Managing corporate costs is necessary activity that requires a lot of input data and information from various parts of the enterprise. Options to reduce these costs depend on the sector in which they arise. The following analysis focuses on personal expenses, which amount may be reduced in a limited extent and indirectly, although its principles are the result of the enterprises activities. This is the cost to the employer's liability insurance, which amount is derived from employee wages, as the amount of health and social insurance. Even though the employer is forced to improve working conditions for this effort is not usually directly assessed and positively motivated. Current legislative framework is very static and it does not reflect real traumatic burden of employers and their efforts to reduce it. To provide optimal condition to ensure an effective accident prevention need treatment with a financial incentives of the employer. Moreover, treatment rates and calculating the payment system for the entire company has controversial elements, such as flat-rate tariffs - pays the same premium amount for all employees. It therefore does not consider the different departments undertaking risk and then are inappropriately increased the personal cost of certain jobs. In this paper, these costs are analyzed and it is pointed out the possibility of systematic setup.

## Keywords:

corporate costs, liability insurance, occupational accidents, legislative

## 1. Introduction

Employer liability insurance provides compensation for injury accidents and the related harm. Currently, it is a system with a turnover of around six billion. Resources of the system represents premium paid by employers, the costs are the actual costs of administration and insurance. As far as these costs are direct costs rather than total. The complementary nature of the system makes it possible to monitor only the costs directly associated with the injury and the compensation for incapacity or after. However, injury is often associated with increased costs in the form of sickness, disability retirement or retraining of the victim. Flat-rate premium rates do not reflect the real burden from workplaces level of risk, particularly the number of accidents and their financial impact. In this context, the system lacks a reserve fund to ensure this function and thereby free them from the links, already loaded, the state budget. Generated surpluses are fed directly into the state budget.

## 2. Costs and savings of employer

The Czech Republic has one of the world's largest differences in total costs per employee and gross wages. This is primarily due to the high social security contributions and state employment policy. Costs of Czech companies in the insurance against industrial accidents are prescribed in a specific amount. That gives the product of premium rates and aggregate bases. The premium is based on the classification of the company to a group of industrial classification of economic activities (OKEC). A summary of the assessment bases applies to

all employees for premiums four times a year. In a simple example to illustrate, we show how these costs are classified into the enterprise manufacturing sector.

The premium is fixed, immutable and the calculation of premiums applies only to include an undertaking by the said classification. In other words, a single rate applies to every employee from the company production departments for administrative services. In this context, it offers inspiration in Germany, where the classification of economic activities of the company calculated as a weighted average of the activities of all employees in the company.

Table 2 is a model indicated the difference in the cost of insurance at normal rate and weighted rate, with regard to various economic activities in the enterprise. The example considers the weighted rate calculated from the rate of 8.4% for 80 production workers and 2.8% for the 20 employees the company management.

	Normal rate [%]	Weighted rate * [%]	Number of employees			Basis of assessment [CZK]			Annual premium [CZK]	Annual premium calculated on the weighted rate [CZK]
			Total	Production	Management	Average	Production	Management		
Employer	8,4	7,3	100	80	20	20 000	20 000	20 000	201 600	174 720

Tab. 1 Example of calculating the weighted premium rates

Enterprise classification of businesses into one group, however, rates in this area supports the consideration of the imbalance between the level of risk of workplaces with the same job description, but located in different sectors. In particular, it is a non-production positions like administration. The issue of risk categorization of work is obviously very demanding, but these specific relationships are examined only at the corporate level, where the possibility of access to individual observers, and even a central national level. If so, the impact on neighborhood risk workplaces is not studied, is the imposition of flat rate corporate rates, and thereby unduly unjustified increases in mandatory spending company.

The most suffer in this affair are companies with high risk workplaces differentiation. Consider for example the likelihood of injuries or illnesses for collier and accountants working in the same mining company. For better understanding the rate classification for mining activities is 5.4% compared to the rate of 0.28% for operating in such accounts at the bank. The miner works in our case in the mine and account in the office building. So if we simply calculate annual premium, to simplify the calculation, the same base 240 000 CZK, we get 12 560 CZK per miner and 672 CZK per account. The flat-rate tariffs, however, will be insurance costs in the mining company 12 560 CZK for each of them.

Table 2 shows an example of insurance in selected sectors with the same inputs as the previous example, also 80 employees in manufacturing and 20 in management.

Industry	Total bases	Rate	Premium
	thous. CZK / year	%	thous. CZK / year
Engineering	24 000	0,84	202
Construction	24 000	0,98	235
Mining	24 000	5,4	1 296

Tab. 2 Insurance in selected sectors

In addition, the calculation of insurance has no relation to the development of injuries in the company, or does not reflect the effort and success of employers to reduce injuries in their operations. So if we will calculate the simplified equation insurance = rate x wage, we see that no single independent variable that could affect insurance premiums regardless of the efforts of the employer. That is precisely what he is legally compelled to continually improve safety and injury prevention for their staff. Positive financial incentives for employers develop accident is zero. Total financial incentive is given to the threat of fines for non-security

work. Therefore, decision about security measures is derived only from the question "What can I lose?" Rather than positive, "What can I get?"

In connection with this example we will consider company which the second year did not show any work injury. The annual cost of insurance against industrial accidents is about a hundred thousand crowns. But it is not primarily a financial stake in the development of the accidents of its operation it can not in any way affect the amount of premium. In this case, the compulsory insurance becomes a form of tax, which contributes to the already high financial burden of Czech companies.

Despite the downward trend in accident rate, the amount of total premiums rise year on year. This is due to the prolonged duration of illness, number of paid rents and rising cost of treatment. For example, the number of annuities between 1995 and 2008 increased from 2 693 to 14 101 cases. This is alarming, more than fivefold increase can only explain the change in the assessment of insurance claims, because the severity of cases also tends to decrease.

### 3. The financial performance of insurance system

The financial performance of the system is shown in table 3. It is necessary to notice that in 2002 there was a reduction in administrative charge from 25% to 13.5% while there was also a one-time increase in premium rates, which resulted in an increase in premium income by 55%.

Year		2000	2001	2002	2003	2004
Total premiums received	[tis. Kč]	2 402 173	2 618 722	4 067 310	4 297 011	4 550 996
Claims paid	[tis. Kč]	1 639 839	1 849 074	2 079 224	2 415 953	2 595 634
Share cry. fulfillment of premiums	[%]	68	71	51	56	57
Cost management	[tis. Kč]	589 917	630 830	512 326	544 076	581 904
The difference between revenues and costs	[tis. Kč]	172 417	138 818	1 475 760	1 336 982	1 373 458

Year		2005	2006	2007	2008	2009
Total premiums received	[tis. Kč]	4 859 277	5 199 571	5 675 928	6 222 364	6 139 930
Claims paid	[tis. Kč]	2 713 900	2 973 255	3 098 801	3 269 079	3 397 763
Share cry. fulfillment of premiums	[%]	56	57	55	49	51
Cost management	[tis. Kč]	625 609	668 903	721 165	766 894	801 307
The difference between revenues and costs	[tis. Kč]	1 519 768	1 557 413	1 855 962	2 186 391	1 940 860

Tab. 2 Selected indicators of work-accident insurance scheme in Czech Republic. Source: Ministry of Finance

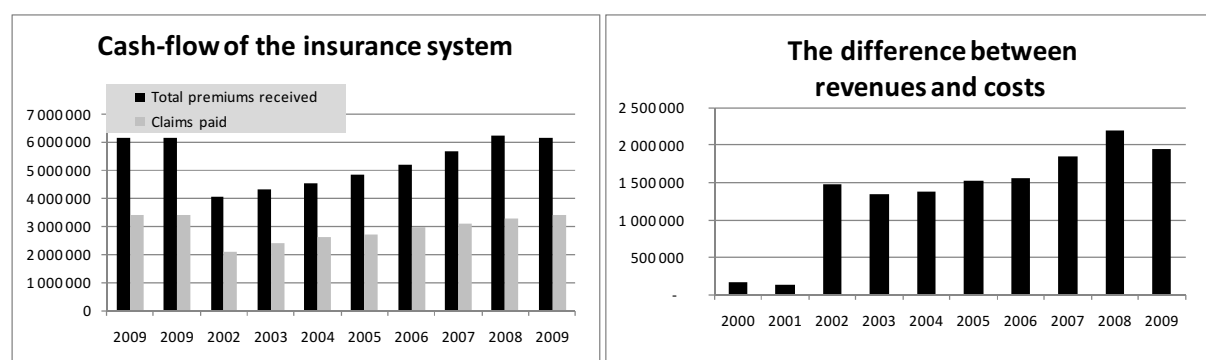


Fig. 1 Graphic comparison of selected indicators of employer's liability insurance scheme

The graphic describes that the premiums paid and claims are obvious long-term trend rate overvaluation. The second chart shows government revenue, which is given by the difference between total incomes and expenses. In the long term risks are very suppressed in case of emergencies increases in expenditure. This is why a high financial surpluses, which has long hovered close to 50% of total revenues, are not justified. In the analysis of ten years beyond the horizon of the financial surpluses of € 13.5 billion. It should be noted

that all this money goes to the state budget without any re-directed back into the system of preventive safety.

### 4. The commitment of the load

Income and expenditure side of the current system was introduced. Ministry of Finance predicts that payments incurred in 2013 (the plan coming into effect of the law on accident insurance and the transfer of staff under the management of Czech Social Security Administration) loaded into the system in 2057, the payout exceeds the sum of CZK 78 billion. This data is used primarily to assess the performance of the transition to the new system, which will have to settle these liabilities insurance. Since the system is continuously funded with surpluses that we have said, will cover the problem and keep these commitments.

### 5. Cost of management

The management system of insurance care insurance for two decrees (Kooperativa a.s and Czech Insurance Company). Besides the exclusivity is being directed by insurance companies long criticized, mainly in terms of comparison with some other systems within the EU. For example, very sharply contrasts with almost half the 7% overhead in the German system. This boundary is also the maximum amount, not the local branch which insurance company ("Berufsgenossenschafts) longer. More tells us the difference of almost 400 million, which will result in overhead applications 7% Czech insurance in 2007. So to think of at 7% system as a pure cost, the remaining 6.5% is guaranteed a profit. It should also be said that the employer's liability insurance is designed for the provider as a nonprofit.

### 6. Generalised system

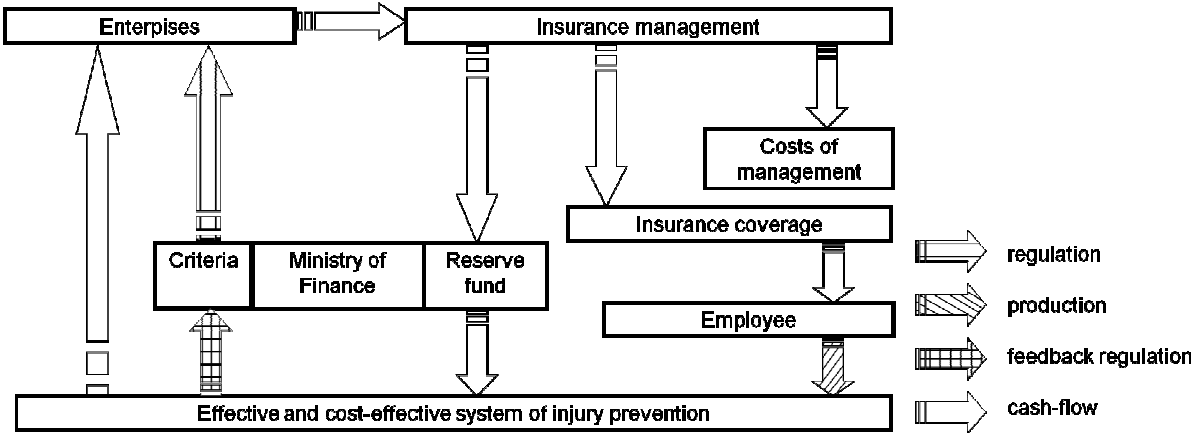


Fig. 2 Model-work accident insurance scheme

Figure 2 shows the generalized relationships between actors, labor insurance system, so that this system can be independent and effective. It is characterized by the fund, let's call it the reserve, which provides independent financial system. There is also implicated feedback, which allows adjustment according to the criteria of the current situation and to regulate the conditions of a particular participant.

### 7. Comprehensive costs of work injuries

The current legislation is a complementary nature, therefore, does not calculate the total financial impact of accidents and provides only for direct costs. The total cost is, however, indirect costs, such as the cost of sickness benefits or costs of any retraining. Important principle, however, this calculation, but the fact that these indirect costs are covered by

health insurance sources. This insurance is paid by every employer, as well as liability insurance, the percentage withheld from the employee's assessment base. It currently stands at 2.3%. The insurance benefit is, unlike liability insurance, paid directly from the state budget through the Czech Social Security Administration. These two schemes are, however, different in kind, plus a separate income and, therefore, should be separated by their insurance. Of course, to simplify administration and enforcement of payments is not practically possible to pay sickness benefits from multiple sources. To calculate the financial costs of injury, which should cover liability insurance, but it is necessary to calculate these costs.

Every employer in the event of an accident at work and it damages insured by law. This insurance is called Employer's Liability Insurance (ELI). If an employee is at his work injured, is legally indemnified by the employer who incurred the costs covered by health insurance. Accident compensation can be in the following variations:

- Compensation for loss of earnings,
- Compensation for pain and social impairment,
- Compensation for reasonably incurred costs associated with treatment,
- Compensation for damage to property.

For the problem is an important compensation for loss of earnings. This ensures employees receive the same, which was before the accident. Since the actual health benefits generally do not cover this amount, the difference between sickness and previous earnings of the employee is compensated by the employer.

As already mentioned, although the reason for incapacity is work-related injury, sickness benefit is paid from the income of insurance against accidents at work, which contributes to the financial or blending of two separate insurance schemes.

The following table shows the survey period of incapacity for work in randomly selected sample of victims conducted by the Czech Statistical Institute in 2005.

Tab. 3 of incapacity for work according to the result of an accident investigation, Source: Czech Statistical Office

Number of incapacity [days]	Number of incidence	Share of total [%]
1 - 3	10	3,9
4 - 5	8	3,1
7 - 13	27	10,6
14 - 20	46	18
21 - 30	63	24,6
30 - 90	76	29,7
90 - 180	17	6,6
180 and more	9	3,5
Total	256	100,0

Incapacity of between 1-3 months reported about 30% of respondents, closely followed is placed within 21 days to 30 days (24.6%) and third place takes sick leave 14 to 20 days (18%).

Determine the total cost of occupational accidents in the Czech Republic will help the data from 2005 provided by the Research Institute for Safety. According to statistics, this year became the 82,042 industrial accidents, which resulted in 3.7 million days sick leave. A simple calculation can be an average value of 45 days sick leave per accident. This means that the average direct cost of compensation for industrial injury must be added the cost of approximately two months of insurance benefits.

Even though the data on the amount of sickness benefits in cases of incapacity due to occupational accidents are available, it is possible to do at least have an idea of the cost of these benefits. Since the victim's income consists of sickness and restored to average earnings, as data on the amount of indemnity provided by the Ministry of Finance to derive the amount of sickness benefits. The amount of sickness benefit is usually 60% of the

assessment base and the remaining 40% of average earnings is replaced by his insurance company.

In 2005, the indemnity for loss of earnings during the period of incapacity was 588,8 million CZK, which in our simplified model, accounting for 40% of the income of the victims. The fact that a damaged then amounts to 1 469 CZK 465 million and the amount of sickness benefit over 881 million CZK. If the share of the total number of accidents sickness benefit, sickness benefit find an average of one accident, which is almost 18 000 crowns.

### **The cost of retraining**

The cost of retraining within the competence of employment services and, therefore, the Ministry of Labour and Social Affairs. Statistics retraining costs, which is necessary due to work accidents, however, does not. But you can say that the cost of retraining are not unnecessary in a context of employment policy.

## **8. Conclusion**

It can generally be summarized that the insurance scheme for accidents at work in the Czech Republic is functionally deficient in particular because it contains the necessary incentives. The company cannot affect costs of liability insurance. An important share of the system contributes to the financial burden of Czech employers, who are compared with employers in other countries, on top of load mandatory spending.

The complementary nature of the system does not identify the total financial impact of accidents and the total cost of injury to the victim to return to work. Increased costs of security are taken over by other institutions of social security and health (healing, sickness, disability pension or retraining). From this perspective, work-related injury burden on other state departments such as health and social care. There is a lack of financial autonomy on the issue, which would help address the elimination of dependence on state funding and the introduction of surplus fund.

Completely inadequate adjustment is static premiums, which does not positively motivate employers to influence accident in the company. Most importantly, it does not distinguish the share of the burden on the employer's insurance claims. At the company level appear to be unfounded flat-rate premium rates, where all employees are in the same group of injuries, regardless of the nature of their work. It is quite evident that the fixed overhead of Insurance is overvalued, even without its concrete expression. This is confirmed by comparison with some similar-functioning systems in other countries. It is also clear that directed charges of administration cannot motivate to reduce real costs and not to determine their necessary quantity.

## 9. Literature

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